Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Connect America Fund;	)	WC Docket No. 10-90
A National Broadband Plan for Our Future;	)	GN Docket No. 09-51
High-Cost Universal Service Support	)	WC Docket No. 05-337

REPLY COMMENTS OF COMCAST CORPORATION

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Comcast Corporation ("Comcast") submits this reply to the comments filed in response to the Notice of Proposed Rulemaking ("*NPRM*") and Notice of Inquiry ("*NOI*") issued by the Federal Communications Commission ("FCC" or "Commission") in the above-captioned proceeding.[1]

I. INTRODUCTION AND SUMMARY

There is widespread support among the commenting parties for the FCC's efforts to control the size of the high-cost federal Universal Service Fund ("USF") and to promote the efficient deployment of broadband to unserved areas. Further, the record reflects a broad cross-section of support for the Commission's proposals for reducing the size of the current high-cost fund.

Consistent with this record, the Commission promptly should:

- Cap the high-cost fund at 2010 levels;
- Phase out support for competitive eligible telecommunications carriers ("CETCs") and limit support to only one provider per geographic area; and

[1] *Connect America Fund; A National Broadband Plan for Our Future; High-Cost Universal Service Support*, Notice of Inquiry and Notice of Proposed Rulemaking, 25 FCC Rcd 6657 (2010) (FCC 10-58) ("*NOI*" or "*NPRM*").

- Freeze and gradually eliminate Interstate Access Support ("IAS") and Interstate Common Line Support ("ICLS").

The Commission also should continue to explore other means of improving the cost-effectiveness of the high-cost fund. In addition, the Commission should reject arguments that current recipients of high-cost support are entitled to a dollar-for-dollar offset for any reduction in their interstate subsidy.

The record developed in response to the *NOI* suggests three basic approaches to determining support for broadband deployment that the FCC should consider in a subsequent NPRM. Specifically, the Commission should develop a more complete record regarding the benefits and risks of using:

- An economic model for estimating broadband deployment costs, and seek comment on the specific inputs to such a model;
- A competitive bidding mechanism to allocate universal service subsidies for broadband; and
- An "embedded cost/cost of service" approach to determining universal service support for broadband services if an economic model or competitive bidding proves unworkable in certain areas.

The Commission's next step should be to issue an NPRM seeking comment on how each of the foregoing options could be implemented, as well as the advantages and disadvantages of each approach. In addition, the Notice should invite parties to comment on whether it would be desirable for the Commission to use a combination of the different approaches, such as an economic model in conjunction with a competitive bidding process, to determine the level of high-cost support needed to underwrite broadband deployment to unserved areas.

II. THE COMMISSION SHOULD TAKE SPECIFIC, CONCRETE STEPS TO CONTROL THE SIZE OF THE HIGH-COST PROGRAM

As Comcast explained in its initial comments, it is imperative that the Commission act promptly to reform the high-cost fund and reduce the burden on contributors and retail customers that foot the bill for universal service subsidies.[2] Many parties agreed with the basic principle that the FCC should cap or reduce high-cost support.[3] Moreover, the record shows significant support for specific proposals advanced in the *NPRM* to address inefficiencies and reduce the size of the high-cost fund, including eliminating the IAS program and capping or eliminating ICLS.[4]

Large numbers of commenters also favored limiting, or eliminating, support for CETCs and limiting USF support to a single provider per geographic area.[5] Verizon

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[2] Comments of Comcast Corporation at 3 ("Comcast Comments"); *see also, e.g.,* Comments of Vonage Holdings Corporation at 3-4 ("Vonage Comments"). (Unless otherwise indicated, all comments cited herein were filed in WC Docket No. 10-90 on July 12, 2010.)

[3] *See, e.g.,* Vonage Comments at 4 (the FCC should "aggressively pursue reductions in [the] cost of universal service to consumers"); Comments of COMPTEL at 6-15 (the FCC "should take immediate action to stem the growth, and ideally cut the size, of the legacy high-cost fund") ("COMPTEL Comments"); Comments of Sprint Nextel Corporation at 11 (the FCC should phase out all legacy high-cost support to incumbent local exchange carriers) ("Sprint Comments"); *see also* Comments of Qwest Communications International Inc. at 22-23 (supporting a cap) ("Qwest Comments"); Comments Submitted on Behalf of the Public Utilities Commission of Ohio at 24-25 (July 14, 2010) ("PUCO Comments"); Comments of Time Warner Cable Inc. at 5-6 ("TWC Comments"); Comments of Verizon and Verizon Wireless at 7-11 ("Verizon Comments"); Comments of Windstream Communications, Inc. at 22-25 ("Windstream Comments"); Comments of the Massachusetts Department of Telecommunications and Cable at 3-5.

[4] *See, e.g.*, Verizon Comments at 15-19 (the FCC should phase out ICLS and IAS); Sprint Comments at 13; TWC Comments at 9; *see also* COMPTEL Comments at 16 (supporting a per-line cap and a cap on the total amount of ICLS); Comments of General Communication, Inc. at 25; PUCO Comments at 25; Windstream Comments at 37.

[5] *See, e.g.,* Comments of the Five MACRUC States at 7 ("there should be at most only one supported provider in any given study area") ("MACRUC Comments"); Initial

Wireless and Sprint have already committed to phase out the high-cost funding they receive as CETCs and both companies favor eliminating high-cost support to all CETCs over time.[6] Eliminating duplicative funding for CETCs would reduce inefficiencies in the current high-cost funding mechanism[7] and could ease the financial burden on contributors and consumers.[8]

As the Public Utilities Commission of Ohio explained, eliminating the current CETC support does not require the FCC to preclude non-incumbents from participating in the high-cost program.[9] The FCC should allow competitive providers to bid in a reverse USF auction, for example. If a competitive carrier were to win the bidding for support in a given area, however, the incumbent should no longer receive support for serving the same area.[10] This approach would allow the Commission to realize the

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Comments of the Indiana Utility Regulatory Commission at 4 (July 14, 2010) (there should be "at most" one subsidized provider per geographic area) ("IURC Comments").

[6] *See* Sprint Comments at 14; Verizon Comments at 19-22.

[7] *See, e.g.,* PUCO Comments at 26 ("it is inefficient and unsustainable to provide support to multiple providers to serve an area that cannot be served by one provider without a subsidy"); Comments of CenturyLink at 2-3 (it is "wasteful" to support two providers in a single area) ("CenturyLink Comments"); Windstream Comments at 26 ("subsidizing more than one provider per geographic area imposes irrational burdens on the consumers who contribute to the Universal Service Fund").

[8] *See, e.g.*, Windstream Comments at 25-27, 31 (CETC support reached $1.4 billion in 2008 and accounts for nearly one third of all high-cost funding); TWC Comments at 9 (noting that the NBP predicted that eliminating CETC support could save $5.8 billion over the next decade); *see also* FCC, "Connecting America: The National Broadband Plan," at 147-48 (rel. March 16, 2010), *available at*: <http://download.broadband.gov/plan/national-broadband-plan.pdf> ("NBP" or "National Broadband Plan").

[9] *See* PUCO Comments at 26-27.

[10] *See, e.g.*, PUCO Comments at 26-27 ("Should a provider that is currently a CETC win a reverse auction, the Ohio Commission strongly believes that the CETC should be required to assume the [provider of last resort] obligation for the geographic area as a condition of receiving CAF support.").

benefits of a competitive funding mechanism while still achieving the cost savings associated with limiting support to one provider per geographic area.

In taking these steps, as well as other cost-savings measures,[11] the Commission should reject arguments that reductions in USF support must be offset by increases in other subsidies.[12] Such arguments are both unfounded and counter-productive. As an initial matter, providing additional subsidies to offset lost USF support would defeat the purpose of cutting unnecessary support. Instead of reducing the burden on consumers who ultimately underwrite subsidies, whether they are implicit or explicit, these "offsets" would simply change the mechanism through which the same revenue streams are funneled to those same carriers.

Moreover, parties favoring regulatory offsets ignore the fact that incumbent local exchange carriers ("LECs") today receive revenues from a variety of services provided over much of the same network for which they seek interstate subsides, including long distance telephone service, Internet service and video service.[13] These services provide

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[11] *See, e.g.*, Comcast Comments at 7-10 (suggesting additional cost saving measures); Initial Comments of the Pennsylvania Public Utility Commission at 15 (advocating for reform of HCL and other support mechanisms) ("PaPUC Comments"); Windstream Comments at 25, 40-44.

[12] *See, e.g.*, Comments of John Staurulakis, Inc. at 11-12 ("Staurulakis Comments"); Windstream Comments at 24; Comments of the Independent Telephone & Telecommunications Alliance at 24-24; Comments of AT&T Inc. at 18-19 ("AT&T Comments"); *see also* PUCO Comments at 25 n.60 (in enacting a per-line freeze, the FCC should ensure that the total amount of network support is maintained, even if the number of customers on the network decreases); IURC Comments at 5-6.

[13] *See* TWC Comments at 14 ("ILECs have continued to receive substantial subsidies even as they have begun to earn substantial additional revenues from new services provided over their common plant – such as broadband Internet access and video services."); Microeconomic Consulting & Research Associates, Inc., "Debunking the Make-Whole Myth: A Common Sense Approach to Reducing Irrational Telecommunications Subsidies, White Paper #3," at 11-14, *available at*: <http://www.micradc.com/news/publications/pdfs/MP/White_Paper_3_FINAL.pdf>

new sources of revenues that were unavailable or unaccounted for at the time that the level of USF funding was first determined. In addition, the incumbents have been depreciating their outside plant, creating large reserves, during the time that these new revenue sources have emerged. These reserves should decrease the incumbent LECs' "need" for subsidies.[14] In short, the additional revenues from newly-offered services in concert with the substantial reduction in net book plant (*i.e.*, the cost of the plant less accumulated depreciation) should be more than enough to allow carriers to cover the costs of their networks, even if the total amount of interstate subsidies they receive from USF is reduced.[15]

Some parties attempt to use the existence of carrier of last resort ("COLR") obligations to justify the need to offset reductions in USF subsidies.[16] This assertion, however, is not supported by any comprehensive analysis of the costs imposed by those obligations. Since the narrowband network has been in place for many years, and is mostly paid for, the cost to the incumbent LEC of holding itself out as a carrier of last resort in its serving area may well be covered by the incremental revenue that it receives whenever a customer signs up for (or continues to use) an incumbent's telephone

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(documenting the large increase in the incumbent LECs' revenues from these services) ("MiCRA White Paper"); *see also, e.g.,* IURC Comments at 4 (noting that USF subsidies for legacy voice services have been used to support "the entire enterprise, including the build out of broadband"); Comcast Comments at 8; Staurulakis Comments at 8-9.

[14] *See* MiCRA White Paper at 21-22 (large and mid-sized incumbent LECs have already recovered nearly 75% of the total cost of their networks and have substantial reserves in place to fund new investment without increasing rates or obtaining additional subsidies).

[15] *See* MiCRA White Paper at 8 ("To the extent non-regulated revenues are 'offsetting' regulated revenues, there is no basis for forcing some group of captive ratepayers, taxpayers, or competitors to make-whole the regulated part of the ILEC.").

[16] *See, e.g.,* AT&T Comments at 19-20.

service.[17] At a minimum, an incumbent LEC seeking offsetting support should be required to show that additional subsidies are needed to allow it to meet its COLR obligations.

III. THE COMMISSION SHOULD SEEK FURTHER COMMENT ON HOW BEST TO CALCULATE AND DISTRIBUTE UNIVERSAL SERVICE SUPPORT FOR BROADBAND

The record developed in response to the *NOI* suggests three possible alternative approaches to estimating the funding required to achieve the Commission's broadband policy objectives: an economic cost model; competitive bidding; and embedded costs/cost of service. The FCC should issue an NPRM seeking comment on each of these methods. In the NPRM, the Commission should provide a more detailed explanation of how each proposed mechanism might work and how each would relate to existing subsidy mechanisms. The Commission also should seek comment on the effectiveness of each alternative in advancing the FCC's broadband public interest goals.

A. Economic Cost Model

As several commenters noted, parties need additional information before they can properly assess whether the economic cost model Commission staff developed in connection with the National Broadband Plan would provide a suitable mechanism for estimating and allocating the funding required to extend broadband service to unserved areas. As an initial matter, several parties commented on the need for the FCC to provide more information about the objectives and parameters of the Connect America Fund

[17] *See* MiCRA White Paper at 25-29.

("CAF") before parties can reasonably evaluate the utility of the proposed model.[18] Thus, the Commission may want to provide additional details about the CAF – including the geographic areas that will be used for determining whether and where support is needed, the deployment schedule for providing broadband to unserved areas, and proposed service quality requirements and metrics – before it seeks further comment on the use of an economic model to assess the amount of support needed to meet the goals of the CAF and distribute that support.[19] Similarly, consistent with the comments from Comcast and others, the Commission should allow parties access to the model so that they can examine the inputs used and test the model's sensitivity to various criteria before they file additional comments regarding the utility of the model.[20]

The Commission should also consider refining the model so that it can be used to analyze the total forward-looking costs of building a broadband network and to compare those costs to the total revenues a provider could earn from providing the full range of services over its network. This type of information would help the Commission determine whether existing explicit and implicit subsidies are needed, along with CAF funding, to support broadband networks in high-cost areas.

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[18] *See, e.g.*, AT&T Comments at 3-4; CenturyLink Comments at 10 (the FCC must establish the contours of the CAF prior to developing an economic model); Comments of the National Cable & Telecommunications Association at 17 (many of the questions in the *NOI* are "possibly premature in the absence of any detail regarding how the CAF will be structured") ("NCTA Comments").

[19] *See, e.g.*, CenturyLink Comments at 43; NCTA Comments at 17.

[20] *See, e.g.*, Comcast Comments at 11-12; CenturyLink Comments at 44-45 (parties must have direct access to the model and be permitted to test it); PaPUC Comments at 18-19; Qwest Comments at 12-13 (parties must have access to the model, its processes and underlying data).

The NPRM should also seek comment on the model's assumption that support should be based on the second-lowest-cost technology.[21] In addition, the Commission should ask parties to comment on whether the economic model should include satellite-based broadband as a potential means of serving some remote locations.[22] These two assumptions drive a substantial portion of the FCC's estimate of the Broadband Availability Gap. As Comcast has explained, including the least cost technology and allowing the use of satellite technology, where appropriate, could yield over $13 billion in savings.[23]

Parties also criticized other aspects of the current model, including some of its underlying assumptions.[24] The FCC should take these concerns into account when it issues its NPRM. The Commission also should allow parties the opportunity to provide additional feedback regarding the model, particularly after parties have had the chance to test the model's sensitivity to various inputs.

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[21] *See, e.g.*, PaPUC Comments at 27-28 (the broadband availability gap should be calculated based on the least-cost technology, not the second least-cost technology).

[22] *See, e.g.*, PUCO Comments at 11, 15 (the cost model must determine the lowest-cost technology for serving each area, including satellite); CenturyLink Comments at 20 (the FCC should consider satellite service in "exceedingly high cost areas").

[23] *See* Comcast Comments at 12-14.

[24] *See, e.g.*, AT&T Comments at 16 (noting concerns about the model's assumptions regarding the capabilities of ADSL2+; the use of 24 gauge copper as opposed to 26 gauge copper; and the costs of wireless spectrum); CenturyLink Comments at 45-55; *see also* PaPUC Comments at 19-21 (expressing concerns about the model's estimate of the number of unserved households).

B. Competitive Bidding

Various parties supported the use of competitive bidding as a means of allocating universal service support, at least in certain circumstances.[25] Parties, however, also raised several issues the FCC should develop further in a future NPRM. Key questions raised in the record include: who should be eligible to bid; what rights and obligations accrue to the winning bidder; what geographic area bidders should be required to serve (*e.g.*, wire center, census blocks, or counties); and whether the FCC should set a reserve price/impose a cap on support to winning bidders.[26] In addition to addressing these questions, the FCC's NPRM also should seek comment on AT&T's proposed "application process" as a potential alternative to a competitive bidding mechanism.[27]

C. Embedded Cost/Cost of Service

Comcast and other commenting parties oppose the continued reliance on a traditional cost-of-service approach to determining USF subsidies.[28] Instead, the Commission should commit to more efficient mechanisms, such as auctions or forward-looking cost models. Despite the apparently obvious advantages of these alternative methods, a handful of parties appear to favor the use of embedded costs for determining

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[25] *See, e.g.*, MACRUC Comments at 9 (favoring the use of an auction to allocate USF support for broadband); Qwest Comments at 5-9; TWC Comments at 10-11; Verizon Comments at 27; PUCO Comments at 10-14.

[26] *See, e.g.*, Qwest Comments at 6-9; MACRUC Comments at 8-10; Sprint Comments at 9-10; *see also* PaPUC Comments at 16-18.

[27] *See* AT&T Comments at 6-12.

[28] *See, e.g.*, MACRUC Comments at 5-6 (the FCC's reliance on embedded costs creates a "far wider margin of support" than is necessary); TWC Comments at 13 ("support should not be based on a carrier's historic, embedded costs, which frequently reflect built-in inefficiencies").

subsidies for broadband deployment.[29] Moreover, a number of parties claim that it is essential to maintain the current level of funding from existing explicit and implicit subsidies in order to support networks that are already deployed, regardless of the type or size of new broadband funding programs.

Accordingly, the Commission should seek comment on the justification for existing subsidies and whether there are any circumstances in which it would be appropriate to use an embedded cost/cost of service approach to funding broadband deployment, similar to the mechanism the Commission currently uses to determine the funding for legacy high-cost support for rural carriers.[30] Specifically, the Commission should seek comment on whether it should continue to rely on the embedded costs of incumbent LECs to determine existing high-cost support – and if so whether more formal rate-cases are needed to scrutinize the level of funding – or whether the use of an auction and/or economic cost model for all subsidies may advance the Commission's broadband policy objectives more effectively and efficiently.[31]

Even assuming *arguendo* that the Commission decided to employ a cost-of-service approach to determine support in areas where it deems other alternatives to be unworkable, it would need to collect new information from the Bell Operating

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[29] *See, e.g.,* Staurulakis Comments at 4-7 (urging the FCC not to abandon an embedded cost methodology).

[30] Some subsidies provided to price cap companies, such as IAS and HCLS, are also based on the cost of service. Revenues previously recovered under price caps – and then offset by the USF – were based on the cost of service at the time that price caps were initiated and have not been adjusted to account for major changes in the type of services offered by the carriers.

[31] *See, e.g.*, TWC Comments at 13 ("[a]ny reliance on embedded costs would simply entrench the [in]efficiencies that have plagued the USF in the past"); PUCO Comments at 15 ("any new CAF support should be based upon the forward-looking economic costs of an efficient provider rather than on historic, embedded costs").

Companies and other incumbent LECs, which have been freed from many of the ARMIS financial reporting requirements.[32] Also, the Commission would need to determine the best way to treat the costs and revenues of activities and facilities that provide multiple services, including determining how to allocate revenues and costs of bundled services that contain regulated and unregulated components. Therefore, any NPRM addressing the use of a cost-of-service mechanism should seek comment on what, if anything, the Commission can do to collect and analyze meaningful information on the costs of the services for which carriers are seeking support.

D. A Combination of Approaches

Finally, the Commission should seek comment on the possibility of using a combination of one or more of the mechanisms described above. For example, the Commission may conclude that competitive bidding is the most desirable approach to determining support levels, but rely on an economic cost model to help to establish a reserve price or to establish support levels in areas where it cannot attract multiple bidders.[33]

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[32] *See Service Quality, Customer Satisfaction, Infrastructure and Operating Data Gathering; Petitions of AT&T Inc., et al., for Forbearance Under 47 U.S.C. § 160(c) From Enforcement of Certain of the Commission's ARMIS Reporting Requirements*, Memorandum Opinion and Order and Notice of Proposed Rulemaking, 23 FCC Rcd 13647 (2008); *Petition of Qwest Corporation for Forbearance from Enforcement of the Commission's ARMIS and 492A Reporting Requirements Pursuant to 47 U.S.C. § 160(c); Petition of Verizon for Forbearance Under 47 U.S.C. § 160(c) from Enforcement of Certain of the Commission's Recordkeeping and Reporting Requirements*, Memorandum Opinion and Order, 23 FCC Rcd 18483 (2008).

[33] *See NOI* ¶ 20; PUCO Comments at 13-14 (favoring the use of a model to set a reserve price for a reverse auction); *see also* CenturyLink Comments at 18-19.

IV. CONCLUSION

The record in this proceeding clearly supports immediate action to reduce the burden of the high-cost fund on contributors and consumers. At a minimum, the Commission should cap the high-cost fund at current levels, begin phasing out support for CETCs, and freeze and begin phasing out IAS and ICLS. The Commission should also continue exploring other means of improving the cost-effectiveness of the high-cost fund. In addition, the Commission should issue an NPRM to develop a more complete record on the use of an economic model, competitive bidding and/or other means of allocating universal service subsidies for broadband deployment.

Respectfully submitted,

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August 11, 2010

Certificate of Service

I hereby certify that on this 11th day of August, 2010, I caused true and correct copies of the foregoing Reply Comments of Comcast Corporation to be mailed by electronic mail to:

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